Alchemia ACL.AX ACL AU

HEALTH CARE & PHARMACEUTICALS

NOMURA EQUITY RESEARCH

Fondaparinux competition heats up

Completion of HA- irinotecan Phase 3 trial safety review is an important milestone

May 22, 2013

Rating Remains	**Buy**
Target price Reduced from 0.55	AUD 0.47
Closing price May 21, 2013	AUD 0.38
Potential upside	+23.7%

Competition intensifies in Fondaparinux

ACL reported 3Q13A net sales of Fondaparinux in the US market of AUD8.8mn, compared with our forecast for AUD17.8mn and the prior sequential quarter of AUD12.3mn. Differences compared to our forecasts were attributable to: 1) 2% lower quarterly market share; 2) 10% price pressure exerted by a competitor, Apotex, to win a large volume pharmacy bid; and 3) seasonality impact between 3Q13 and 2Q13.

Satisfactory completion of safety review is an important milestone

The independent Data Safety Monitoring Board (DSMB) that is responsible for reviewing the safety data of ACL's phase III study of HA-Irinotecan in metastatic colorectal cancer (mCRC), met for the third time and recommended that the clinical trial should continue as planned.

Changes: updating ACL's Fondaparinux revenues in FY13F

Changes to our forecasts include: 1) lower FY13 US Fondaparinux sales – we have updated for the actual 3Q13 sales of AUD8.8mn, and reduced our forecast for 4Q13 to AUD11.6mn; and 2) initiation of EU sales has been delayed from FY13F to FY14F, in line with guidance. As a result, EPS has decreased to -4.8cps and -1.6cps for FY13F and FY14F, respectively.

Valuation: Buy rating maintained, TP reduced to AUD0.47

Our new AUD0.47 target price is based on the risk-weighted valuation of the company's opportunities. In our view, ACL has: 1) a de-risked business model as it has generic Fondaparinux on market; and 2) potential medium earnings upside surprise from entry to new markets.

30 Jun	FY12		FY13F		FY14F		FY15F
Currency (AUD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	0	15	11	20	15	33	26
Reported net profit (mn)	-15	-11	-15	0	-5	11	6
Normalised net profit (mn)	-15	-11	-15	0	-5	11	6
FD normalised EPS	-6.23c	-3.55c	-4.81c	0.02c	-1.64c	3.32c	1.70c
FD norm. EPS growth (%)	na	na	na	na	na	13,391.9	na
FD normalised P/E (x)	na	N/A	na	N/A	na	N/A	22.3
EV/EBITDA (x)	na	N/A	na	N/A	na	N/A	10.0
Price/book (x)	4.4	N/A	5.5	N/A	7.3	N/A	6.6
Dividend yield (%)	na	N/A	na	N/A	na	N/A	3.2
ROE (%)	-70.0	-43.3	-63.4	0.3	-27.9	39.6	32.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

The percentage of the population in the older age group in developed countries is increasing. Improved longevity and the aging population demographic will likely lead to growing demand for treatments and surgeries, which leads to increased need for anti-clotting products, the target market for generic fondaparinux.

Nomura vs consensus

There is minimal consensus data available.

Research analysts

Australia Health Care & Pharmaceuticals

Zara Lyons - NAL
zara.lyons@nomura.com
+61 2 8062 8407

Dr David Stanton - NAL
david.stanton@nomura.com
+61 2 8062 8410

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

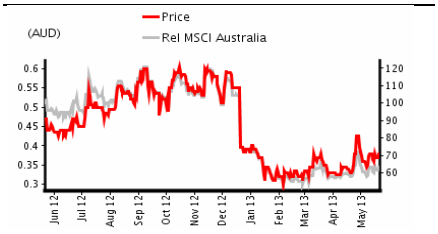
Key data on Alchemia

Income statement (AUDmn)

Year-end 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
Revenue	**0**	**0**	**11**	**15**	**26**
Cost of goods sold	-4	0	0	0	0
Gross profit	**-4**	**0**	**11**	**15**	**26**
SG&A	-12	-17	-27	-21	-18
Employee share expense					
Operating profit	**-15**	**-16**	**-15**	**-6**	**8**
EBITDA	**-13**	**-15**	**-14**	**-4**	**9**
Depreciation	0	0	0	0	0
Amortisation	-1	-1	-1	-1	-1
EBIT	-15	-16	-15	-6	8
Net interest expense	0	0	0	1	0
Associates & JCEs					
Other income	1	0	0	0	0
Earnings before tax	**-14**	**-15**	**-15**	**-5**	**8**
Income tax	0	0	0	0	-2
Net profit after tax	**-13**	**-15**	**-15**	**-5**	**6**
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	**-13**	**-15**	**-15**	**-5**	**6**
Extraordinary items	0	0	0	0	0
Reported NPAT	**-13**	**-15**	**-15**	**-5**	**6**
Dividends	0	0	0	0	-4
Transfer to reserves	**-13**	**-15**	**-15**	**-5**	**2**
Valuation and ratio analysis					
Reported P/E (x)	na	na	na	na	21.6
Normalised P/E (x)	-5.4	-6.1	-7.8	-22.5	21.6
FD normalised P/E (x)	na	na	na	na	22.3
FD normalised P/E at price target (x)	na	na	na	na	27.6
Dividend yield (%)	na	na	na	na	3.2
Price/cashflow (x)	na	na	na	na	16.4
Price/book (x)	3.9	4.4	5.5	7.3	6.6
EV/EBITDA (x)	na	na	na	na	10.0
EV/EBIT (x)	na	na	na	na	12.3
Gross margin (%)	na	100.0	100.0	100.0	100.0
EBITDA margin (%)	na	-4,306.5	-122.8	-28.8	36.2
EBIT margin (%)	na	-4,819.9	-138.3	-40.5	29.5
Net margin (%)	na	-4,475.7	-132.3	-37.1	22.0
Effective tax rate (%)	na	na	na	na	30.0
Dividend payout (%)	na	na	na	na	70.0
Capex to sales (%)	na	0.0	0.0	0.0	0.0
Capex to depreciation (x)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-53.4	-70.0	-63.4	-27.9	32.0
ROA (pretax %)	-57.5	-83.0	-81.7	-31.3	41.6
Growth (%)					
Revenue	na	na	3,220.1	32.2	75.0
EBITDA	na	na	na	na	na
EBIT	na	na	na	na	na
Normalised EPS	na	na	na	na	na
Normalised FDEPS	na	na	na	na	na
Per share					
Reported EPS (AUD)	-7.02c	-6.23c	-4.90c	-1.69c	1.76c
Norm EPS (AUD)	-7.02c	-6.23c	-4.90c	-1.69c	1.76c
Fully diluted norm EPS (AUD)	-7.02c	-6.23c	-4.81c	-1.64c	1.70c
Book value per share (AUD)	0.10	0.09	0.07	0.05	0.06
DPS (AUD)	0.00	0.00	0.00	0.00	0.01

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (AUD)	15.2	16.9	-15.6
Absolute (USD)	9.9	11.9	-16.0
Relative to index	10.1	12.8	-44.3
Market cap (USDmn)	104.6		
Estimated free float (%)	100.0		
52-week range (AUD)	.62/.29		
3-mth avg daily turnover (USDmn)	0.12		
Major shareholders (%)			
Orbi Global	9.1		
Allan Gray Australia	7.4		

Source: Thomson Reuters, Nomura research

Notes

ACL is well positioned to generate earnings from US sales of Fondaparinux

Cashflow (AUDmn)

Year-end 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	-13	-15	-14	-4	9
Change in working capital	10	4	0	0	0
Other operating cashflow	-8	-1	-1	1	-2
Cashflow from operations	**-12**	**-12**	**-15**	**-3**	**8**
Capital expenditure					
Free cashflow	**-12**	**-12**	**-15**	**-3**	**8**
Reduction in investments					
Net acquisitions	0	0	0	0	0
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	9	0	0	0	0
Cashflow after investing acts	**-2**	**-11**	**-15**	**-4**	**7**
Cash dividends	0	0	0	0	-4
Equity issue	0	20	13	0	0
Debt issue	0	0	0	0	0
Convertible debt issue					
Others	0	2	2	0	0
Cashflow from financial acts	**0**	**22**	**15**	**0**	**-4**
Net cashflow	**-2**	**10**	**-1**	**-4**	**3**
Beginning cash	5	4	14	13	9
Ending cash	4	14	13	9	13
Ending net debt	-4	-14	-13	-9	-13

Source: Company data, Nomura estimates

Notes

ACL has had a AUD13mn equity raising in FY13F

Balance sheet (AUDmn)

As at 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	4	14	13	9	13
Marketable securities					
Accounts receivable	0	0	3	3	4
Inventories	0	0	0	0	0
Other current assets	2	2	2	2	2
Total current assets	**6**	**16**	**17**	**14**	**18**
LT investments	0	0	0	0	0
Fixed assets	1	0	0	0	0
Goodwill	6	6	6	6	6
Other intangible assets	12	10	9	8	6
Other LT assets	0	0	0	0	0
Total assets	**24**	**32**	**33**	**28**	**31**
Short-term debt	0	0	0	0	0
Accounts payable	1	3	4	5	6
Other current liabilities	1	1	3	3	3
Total current liabilities	**2**	**5**	**7**	**8**	**9**
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	4	3	3	3	3
Total liabilities	**6**	**8**	**10**	**11**	**12**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	118	139	151	151	151
Retained earnings	-103	-118	-133	-138	-137
Proposed dividends					
Other equity and reserves	4	4	4	4	4
Total shareholders' equity	**19**	**24**	**22**	**17**	**19**
Total equity & liabilities	**24**	**32**	**33**	**28**	**31**
Liquidity (x)					
Current ratio	3.60	3.35	2.51	1.82	2.08
Interest cover	na	na	na	na	na
Leverage					
Net debt/EBITDA (x)	na	na	na	na	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	na	209.1	43.6	70.4	48.3
Days inventory	0.0	na	na	na	na
Days payable	34.3	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Company data, Nomura estimates

Notes

ACL had net cash of AUD13.8mn as at 31 March 2013

3Q13 – competition heating up

ACL's key product is Fondaparinux, a blood-clotting agent. ACL sold the global licensing rights to distribute Fondaparinux to Dr Reddy's Laboratories (DRRD IN, INR2,021, Buy). Under the terms of ACL's agreement with its manufacturing and marketing partner, Dr Reddy's Laboratories, ACL will receive 50% of operating profits from US sales of generic Fondaparinux after certain development costs have been recouped by its partner.

ACL reported 3Q13A net sales of Fondaparinux in the US market of AUD8.8mn, which compared with our forecast for AUD17.8mn and the prior sequential quarter of AUD12.3mn. Differences compared to our forecasts were attributable to: 1) 2% lower quarterly market share; 2) 10% price pressure exerted by competitor Apotex to win a large volume pharmacy bid; and 3) seasonality between 3Q13 and 2Q13.

Changes to our forecasts include: 1) US Fondaparinux sales – we have updated for the actual 3Q13 sales of AUD8.8mn, and reduced our forecast for 4Q13 to AUD11.6mn; and 2) initiation of EU sales have been delayed from FY13F to FY14F, in line with the company's guidance. As a result of these changes, EPS has decreased to -4.8cps and -1.6cps for FY13F and FY14F, respectively. This is shown below.

Fig. 1: ACL – changes to forecasts

	FY13F			FY14F		
	Prev	Rev	Diff (%)	Prev	Rev	Diff (%)
EBIT (AUDmn)	(11.6)	(15.5)	nm	(0.7)	(6.0)	nm
NPAT (AUDmn)	(10.9)	(14.8)	nm	0.1	(5.5)	nm
EPS (c)	(3.6)	(4.8)	nm	0.0	(1.6)	nm
DPS (c)	0.0	0.0	nm	0.0	0.0	nm
Net op cash flow (AUDmn)	(11.8)	(15.6)	nm	1.3	(4.0)	nm

Source: Company data, Nomura estimates

1. Background – who are ACL?

Based in Brisbane, Australia, Alchemia is a small-molecule biopharmaceutical company

Alchemia (ACL) is a drug discovery and development company. The company's lead drug, Fondaparinux, is a generic version of GlaxoSmithKline's (GSK LN, unrated) Arixtra, a synthetic anticoagulant mainly used for the prevention of deep vein thrombosis. It was launched in July 2011 in the US by ACL's marketing partner Dr Reddy's Laboratories.

In addition, ACL is developing other potential products. ACL's pipeline of assets is built on two platform technologies: HyACT (targeted cancer delivery) and VAST (drug discovery). The primary objective of the HyACT technology is to develop a new generation of anti-cancer drugs which demonstrates better efficacy. The lead product from the HyACT platform is HA-irinotecan, which is currently in a pivotal Phase III clinical trial that commenced recruitment in January 2012.

2. Key insights

- **Outlook:** Alchemia expects to receive 50% of operating profits from the sales of Fondaparinux in the US market, after certain development costs have been recouped by its partner, Dr Reddy's Laboratories. ACL expects to receive a 3QFY13 profit share of AUD1.85mn net of its AUD0.5mn process contribution. This compares with our FY13 Fondaparinux profit forecast of AUD7.8mn. Dr Reddy's and ACL will jointly invest to reduce the cost of the active pharmaceutical ingredient (API). The two companies have agreed to split additional costs of USD10mn equally. ACL's cost share will be deducted from ACL's net quarterly profit receipts over the next eight quarters at a rate of USD500K per quarter. The cost benefits of this commenced in 1Q13. ACL provided an outlook statement at its 2012 AGM presentation in which the company stated that it anticipates stable share in US retail and an increase in Institutional market share. ACL also expects to benefit from a reduction in its cost of goods towards the end of CY13, which is expected to improve profitability of the Fondaparinux business;

- **EU application for Fondaparinux:** ACL has filed an application with the European Medicines Agency (EMA) for approval of Fondaparinux in the EU in April 2012. This was shortly after the expiry of 10 years of data exclusivity. Management has previously stated that approval times in the EU are generally shorter than in the US and that the launch is anticipated sometime in calendar year 2013. ACL and its partner Dr Reddy's Laboratories intend to focus on commercialising Fondaparinux in Rest of World markets where Arixtra is already selling and where its Fondaparinux can be sold as a typical generic drug.

3. HyACT and HA-irinotecan

ACL is developing potential anticancer products. The lead product from this HyACT platform is HA-irinotecan. ACL's HA-irinotecan preferentially targets the cell surface receptor CD44. CD44 is thought to be a marker of cancer stem cells (CSC), so targeting this may target CSCs. Recently, research has focused on the theory that many cancers are driven by transformed CSCs (i.e. early-stage cancer cells).

What is irinotecan?
Irinotecan is a semisynthetic camptothecin derivative that works by inhibiting the topoisomerase 1 enzyme, which is involved in cancer cell replication. Irinotecan is a standard therapy for patients with metastatic disease who have failed 5-Fluorouracil (5-FU)-based therapy. Single-agent irinotecan can be given according to a variety of schedules, including 350 mg/m2 every three weeks, which demonstrates efficacy similar to other alternatives.

What is HA-irinotecan?
In an attempt to increase the benefit associated with irinotecan-based treatment and/or to reduce the dose-limiting toxicity often associated with this therapy, irinotecan has been formulated with the naturally ubiquitous polysaccharide, hyaluronan (HA), resulting in ACL's proprietary product (HA-irinotecan). This process is called HyACT. This product utilises the physiochemical and biologic properties of HA as a macromolecular carrier of drugs to solid tumours. After intravenous administration, the HA-drug combination enters the tumour and aggregates, thereby forming a vascular microembolism within the tumour where the intra-tumoural drug depot persists, increasing drug accumulation and retention. The increased intra-tumoural drug concentration enables the increased internalization of the anti-cancer agent via a CD44-mediated mechanism, ultimately enhancing efficacy. A secondary effect is the diversion of the drug from healthy tissue, leading to a reduction in some commonly observed treatment toxicities.

What is CD44?
In many cancers of epithelial origin there is an up-regulation of CD44, a receptor that binds hyaluronic acid (hyaluronan or HA). In other cancers, HA in the tumour matrix is over-expressed. Both CD44 on cancer cells and HA in the matrix have been targets for anti-cancer therapy. Even though CD44 is expressed in normal epithelial cells and HA is part of the matrix of normal tissues, selective targeting to cancer is possible. This is because macromolecular carriers predominantly connect and deliver their payload into the tumour and not normal tissue; thus CD44-HA targeted carriers administered intravenously localize preferentially into tumours.

HA-Irinotecan trial passes 3rd safety review
Alchemia (ACL) has announced that the independent Data Safety Monitoring Board (DSMB) that is responsible for reviewing the safety data of ACL's phase III study of HA-Irinotecan in metastatic colorectal cancer (mCRC), recently met for the third time to review the safety data for this clinical trial, and recommended that the clinical trial should continue. The satisfactory completion of the safety review is an important milestone for HA-Irinotecan.

ACL continues to expect that HA-Irinotecan will provide improved clinical benefit to patients without increasing the burden of toxicity.

The phase III study has recruited 415 irinotecan naïve second- or third-line mCRC patients who are randomized in a double-blinded fashion to receive HA-Irinotecan or irinotecan delivered as part of the widely used FOLFIRI regimen (5-Fluourouracil,

leucovorin and irinotecan). The primary endpoint of ACL's trial is progression free survival (PFS), which will be assessed when 350 patients' disease has progressed.

In a previous Phase II study, HA-Irinotecan provided a significant efficacy and clinical benefit to second-line colorectal cancer patients, where the PFS period was more than doubled (5.2m vs 2.4m, p=0.014) when compared with the form of irinotecan that is currently used in the clinic.

We assume HA-irinotecan will get to market in FY16F.

Fig. 2: Clinical trials of antibody anti-CD44 conjugates

Antibody	Drug	Injection Method	Cancer Type	Effect
U36	Re-186	Single intravenous	Head and Neck Squamous Cell Carcinoma	Stable disease in 5 of 9 patients, mild myelotoxicity
BIWA 4	Tc-99m	Single intravenous	Head and Neck Squamous Cell Carcinoma	Tumor targeting
BIWA 4	Re-186	Dose escalation	Head and Neck Squamous Cell Carcinoma	Stable disease in 3 of 6 patients, limiting myelotoxicity
BIWA 4	Re-186	Single intravenous	Early Stage Breast Cancer	Moderate tumor identification, no correlation with CD44v6 expression
BIWA 4	Mertansine	Dose escalation	Head and Neck Squamous Cell Carcinoma	Moderate disease stabilization, skin toxicity
BIWA 4	Mertansine	Dose escalation	Head and Neck Squamous Cell Carcinoma	Low interpatient pharmacokinetic variability, skin toxicity
BIWA 4	Mertansine	Dose escalation	CD44v6 Positive Metastatic Breast Cancer	Stable disease in 12 of 24 patients, dose limiting toxicity

Source: PubMed, Nomura research

In summary, several intrinsic characteristics of HA highlighted its potential as a drug-delivery vehicle:

- The nature of HA makes it a vehicle for the delivery of smaller molecules;
- There is up-regulation and activation of the HA receptor CD44 on malignant cancer tissue. An active CD44 within the tumoural environment mediates HA internalisation and
- HA is non-immunogenic and considered by regulatory bodies as a biologically inert compound.

Hence, there is a potential opportunity to target the HA tumour matrix to provide a sustained drug source within the tumour. There have been a number of Targeted Drugs and Drug Carriers trials using HA.

Fig. 3: Targeted drugs and drug carriers in vitro

Carrier	Drug	Cancer targeted	Effect
LMW-HA	Paclitaxel	mammary, colon, ovarian	Cytotoxicity, CD44 specific uptake
HMW-HA	Butyrate	mammary, liver, non-small cell lung	Inhibited proliferation, CD44 specific uptake
HMW-HA	Paclitaxel	bladder, ovarian	Cytotoxicity
HMW-HA	Paclitaxel	ovarian	Cytotoxicity
HMW-HA	Carborane	colorectal, mammary, ovarian, transitional cell	CD44 specific uptake
LMW-HA, HMW-HA	siRNA	colon	CD44 specific uptake, gene silencing
HMW-HA Fe2O3 Particle	Peptide	alveolar squamous	Peptide internalization
HPMA Polymer, LMW-HA	Doxorubicin	mammary, colon, ovarian	Cytotoxicity, CD44 specific uptake
Liposome HA Oligos	Doxorubicin	melanoma	Cytotoxicity, CD44 specific uptake
HMW-HA PLGA Particle	Doxorubicin	breast	Cytotoxicity, CD44 specific uptake

Source: PubMed, Nomura research

Revised model assumptions

Revisions to our ACL earnings model assumptions are as follows:

- **US Fondaparinux sales** - We have updated for the actual 3Q13 sales of AUD8.8mn, and reduced our forecast for 4Q13 to AUD11.6mn;

- **European Fondaparinux sales** - We have delayed initiation of EU sales from FY13F to FY14F, in line with the company's guidance; and
- **Net interest income** – This has been calculated in line with period-end cash balances.

Valuation and risks

We have valued the generic Fondaparinux opportunity in line with our forecasts for growth of the Fondaparinux market in the US market, as well as potential entry into other developed markets. In addition, we have valued other opportunities for ACL, namely HA-irinotecan. Our valuation can be seen in the following figure.

Fig. 4: ACL – valuation methodology

Product	Valuation (AUDps)	Probability (%)	Risk-weighted valuation
Fondaparinux	0.33	100.0	0.33
ACL Oncology	0.40	61.2	0.24
Less R&D	-0.14		-0.14
Cash	0.04		0.04
Valuation	**0.62**		0.47

Source: Nomura estimates

Risks to our investment view

For ACL's leading product, generic Fondaparinux, there is still uncertainty around the potential level of growth in most of its prospective markets. ACL's rate of earnings growth is dependent on the sales and marketing support provided by its partner Dr Reddy's Laboratories. Should ACL enter further clinical trials in new methods of drug delivery, we note that early results give no real enough indication of a product's true viability, and full foresight on future market conditions is difficult to obtain. In addition, there is still a good deal of uncertainty around the viability of ACL's HA-irinotecan in most of its prospective markets. Early clinical trials, although positive, give no real enough indication of a product's true viability and full foresight on future market conditions is difficult to obtain. To date, all preclinical and Phase II trials have shown indications for product viability. As it stands, there have been no significant adverse effects or health issues and Phase II trials indicate a product with the potential for market viability. Therefore, we believe this is an investment opportunity for investors with a higher risk appetite.

Appendix A-1

Analyst Certification

I, Zara Lyons, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries, and may refer to one or more Nomura Group companies.

Materially mentioned issuers

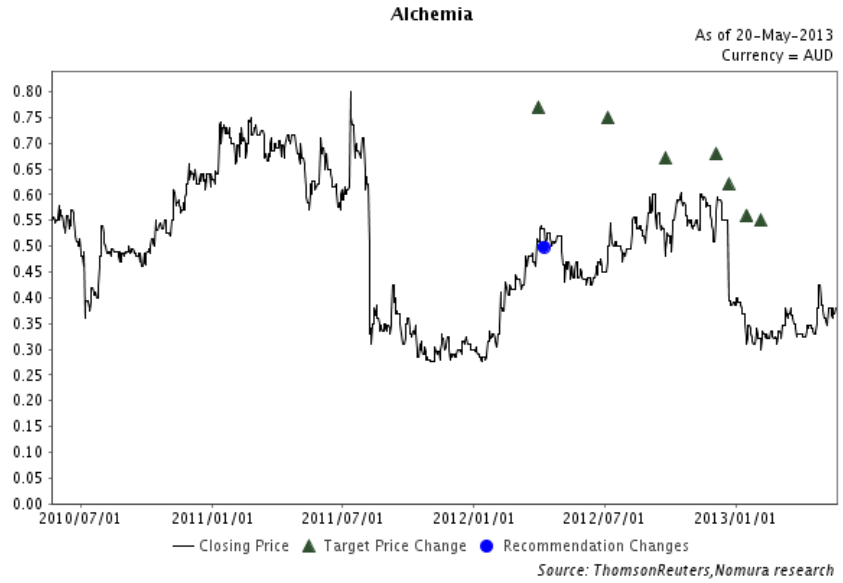
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Alchemia	ACL AU	AUD 0.38	21-5-2013	Buy	Not rated	
Dr Reddy's Laboratories	DRRD IN	INR 2020	21-5-2013	Buy	Not rated	A1,A3

A1 Nomura Securities International, Inc has received compensation for non-investment banking products or services from the issuer in the past 12 months.

A3 Nomura Securities International, Inc had a non-securities related services client relationship with the issuer during the past 12 months.

Alchemia (ACL AU) **AUD 0.38 (21-5-2013)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
04-Feb-13		0.55	0.32
16-Jan-13		0.56	0.31
21-Dec-12		0.62	0.395
04-Dec-12		0.68	0.57
24-Sep-12		0.67	0.48
06-Jul-12		0.75	0.50
30-Mar-12	Buy		0.51
30-Mar-12		0.77	0.51

For explanation of ratings refer to the stock rating keys located after chart(s)

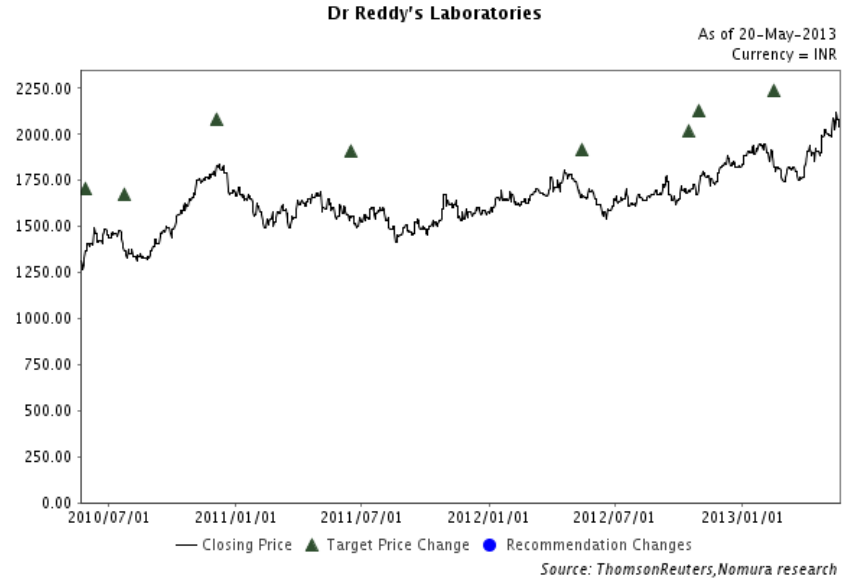
Valuation Methodology Our AUD0.47 TP is based on the risk-weighted valuation of the company's product opportunities plus cash and less R&D expenses. We have valued the generic fondaparinux opportunity (AUD0.33/sh) in line with our forecasts for the growth of the fondaparinux market in the US market, as well as potential entry into other developed markets. In addition, we have valued other opportunities (AUD0.24/sh)for ACL, namely HA-Irinotecan, and have added cash (AUD0.04/sh) and subtracted R&D expenses (-AUD0.14/sh).

Risks that may impede the achievement of the target price For ACL's leading product, generic fondaparinux, there is still uncertainty around the potential level of growth in most of its prospective markets. ACL's rate of earnings growth is dependent on the sales and marketing support provided by its partner Dr Reddy's Laboratories. Should ACL enter further clinical trials in new methods of drug delivery, we note that early results give no real enough indication of a product's true viability, and full foresight on future market conditions is difficult to obtain. For irinotecan, there is still a good deal of uncertainty around the viability of ACL's HA-iriontecan in most of its prospective markets. Early clinical trials, although positive, give no real enough indication of a product's true viability and full foresight on future market conditions is difficult to obtain. To date, all preclinical and

Phase II trials have shown indications for product viability. As it stands, there have been no significant adverse effects or health issues and Phase II trials indicate a product with the potential for market viability. Therefore, we believe this is an investment opportunity for investors with a higher risk appetite.

Dr Reddy's Laboratories (DRRD IN) **INR 2020 (21-5-2013)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
15-Feb-13		2,238.00	1,818.90
30-Oct-12		2,130.00	1,724.30
15-Oct-12		2,015.00	1,701.20
14-May-12		1,918.00	1,671.95
15-Jun-11		1,911.00	1,555.60
03-Dec-10		2,084.00	1,827.95
23-Jul-10		1,677.00	1,365.30
28-May-10		1,709.00	1,370.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Dr. Reddy's at 17x blended FY15F earnings of INR132/sh. Our target price is INR2,238.

Risks that may impede the achievement of the target price The key risks to our call are: a) adverse impact of pricing pressure/ price control in India, Russia; b) delay in key product approvals in the US; c) further drop in volumes and pricing in Germany; d) substantial INR appreciation and e) substantial increase in high risk innovation.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

Nomura research is available on www.nomuranow.com/research, Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. ("NGFP") Nomura Derivative Products Inc. ("NDPI") and Nomura International plc. ("NIplc") are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

Any authors named in this report are research analysts unless otherwise indicated. *Industry Specialists* identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
43% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 40% of companies with this rating are investment banking clients of the Nomura Group*.
46% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Nomura Group*.
11% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 23% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 March 2013. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company. Benchmarks are as follows: **United States/Europe**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A '**Buy**' recommendation indicates that potential upside is 15% or more. A '**Neutral**' recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce**' recommendation indicates that potential downside is 5% or more. A rating of '**Suspended**' indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as '**Not rated**' or shown as '**No rating**' are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price
A Target Price, if discussed, reflects in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This document contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or identified elsewhere in the document. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries and may refer to one or more Nomura Group companies including: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; NIHK, Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034) and NIplc, Madrid Branch ('NIplc, Madrid'). 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under a Research Assistance Agreement. CNS is not a Nomura entity.

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by Nomura group are hereby excluded and Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Nomura Group does not provide tax advice.

Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. Nomura Group companies may also act as market maker or liquidity provider (within the meaning of applicable regulations in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. Nomura Group publishes research product in a number of different ways including the posting of product on Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements. Clients outside of the US may access the Nomura Research Trading Ideas platform (Retina) at http://go.nomuranow.com/equities/tradingideas/retina/

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by NIplc. NIplc is authorised by the Prudential Regulation Authority ('PRA'), regulated by the Financial Conduct Authority and the PRA, and is a member of the London Stock Exchange. This document does not constitute a personal recommendation within the meaning of applicable regulations in the UK, or take into account the particular investment objectives, financial situations, or needs of individual investors. This document is intended only for investors who are 'eligible counterparties' or 'professional clients' for the purposes of applicable regulations in the UK, and may not, therefore, be redistributed to persons who are 'retail clients' for such purposes. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This document has not been approved for distribution to persons other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia ('Saudi Arabia') or to clients other than 'professional clients' (as defined by the Dubai Financial Services Authority) in the United Arab Emirates ('UAE') by Nomura Saudi Arabia, NIplc or any other member of Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or to any person other than 'Authorised Persons', 'Exempt Persons' or 'Institutions' located in Saudi Arabia or to clients other than 'professional clients' in the UAE. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are an 'Authorised Person', an 'Exempt Person' or an 'Institution' in Saudi Arabia or that you are a 'professional client' in the UAE and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

Additional information is available upon request and disclosure information is available at the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx